

March 3, 2005

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Jaclyn A. Brillling, Secretary
New York State Public Service Commission
3 Empire State Plaza
Albany, New York 12223-1350

**Re: In the Matter of the System Benefits Charge III.
Case 05 – M- 0090**

Dear Secretary Brillling:

On behalf of Honeywell International (“Honeywell”), please accept our comments as requested by the Public Service Commission’s (“PSC”) Staff on January 28, 2005 regarding the System Benefits Charge III.

Honeywell wishes to applaud both the PSC in the establishment of a System Benefits Charge (“SBC”) and the New York State Energy Research and Development Authority (“NYSERDA”) in the administration of the SBC funded programs. By taking these actions, the PSC has created a mechanism by which customers across all segments as served by New York’s electricity suppliers contribute to and benefit by:

- Improving New York’s energy system reliability and security by reducing energy demand;
- Reducing the energy burden of New Yorkers, particularly, the State’s low income households;
- Mitigating the environmental and health impacts of energy use by increasing energy efficiency; and
- Creating economic opportunity and promote economic well-being supporting emerging technologies, fostering competition, improving productivity, growing New York energy businesses, and helping the State meet expanding energy needs.

With the sunset of the SBC II scheduled for June of 2006, it is encouraging to see Staff start this proceeding now. It is important to the State, NYSERDA, program implementers and market actors (contractors, retailers, manufacturers) alike to ensure

continuity in continuing the SBC. A gap in the funding would surely have a negative impact on the many companies providing and customers receiving the attributes and benefits of the SBC funded programs.

Sincerely,



Michael Lyons
Programs Manager
Honeywell Utility Solutions



Ronald S. Beruta
Business Development
Honeywell Building Solutions

In direct response to the Staff's request for comments, Honeywell offers the following:

1. To what extent have the goals and objectives established by the Commission been achieved?

The energy efficiency climate in New York State has been dramatically improved since the SBC's inception. As a direct result of the SBC:

- *Economic growth has prospered – more and more market actors have set up shop in New York and are actively participating in energy efficiency services;*
- *Energy efficiency has resulted in reduced demand for customers across all market sectors;*
- *Low income households have received outreach and energy education, received energy efficiency services that have resulted in more affordable bills and improved comfort; and have had health and safety checks performed to ensure that they live in the best possible environment available;*
- *The benefits of increased investment in energy efficiency and in the adoption of new technologies are far reaching.*

According to a January 2002 evaluation and status report as commissioned by NYSERDA, the SBC's initial three-year period has resulted in 66 Energy Smart program solicitations issued, the commitment of \$143.6 million for energy efficiency programs, \$12.8 million for low-income energy affordability offerings, \$33.6 million for energy-related R&D projects, and \$400,000 for environmental disclosure activities. This report also estimated that program measures installed through June 2001 would result in energy bill reductions of over \$119 million annually.

NYSERDA's May of 2004 evaluation and status report indicates that the SBC-funded Energy Smart program reduced annual electricity use in New York by about 1,000 GWh as of year end 2003 and with annual total bill savings for participating customers estimated at \$140 million. Improved efficiencies make in-state businesses more competitive and reduce the cost of operations for non-profit and public sector building owners, thereby reducing the cost of living for all New York State residents.

2. Should the SBC program continue beyond its current expiration date of June 30, 2006? If so, for what duration should the SBC be extended and at what funding level?

Yes, we believe that the SBC should continue beyond its current expiration date of June 30, 2006 for a period of an additional five years and recommend a 10% budget increase.

The SBC has only been in existence for five short years and yet so much has been accomplished. An infrastructure that the industry has come to understand and respect has been established through NYSERDA. Program planning and delivery happens consistently and with plenty of input from stakeholders. Real businesses delivering real goods that have measurable impacts are starting to take hold on a continual basis.

To abandon the SBC at this time would be detrimental to each of the strides taken as mentioned above. Yes, the marketplace should eventually transform. Sometime in the future, these services should be delivered in a free-market. Honeywell argues that the New York market has not yet reached the maturity level needed to support a free market model. Hence, the SBC should continue at the existing funding level at a minimum.

3. Have conditions changed since the establishment of the SBC that would necessitate a change in the overall goals and objectives of the SBC? If so, what changes are recommended?

Certainly much has changed since the inception of the original SBC in New York. We've experienced blackouts that have affected hundreds of thousands of New Yorkers. Electric distribution issues challenge us daily. This has taught us that our electrical supply grid is fragile and requires various support mechanisms to sure up its' condition and performance. Furthermore, changes in technology such as renewable sources of energy, distributed (on-site) electric production, and load management technologies have changed the types of solutions that are available to end users. Each and every day, we pay nearly double the price of gasoline and fuel oil to run our automobiles and heat our homes and businesses as compared to when the SBC was originated. New Yorkers have some of the highest fuel consumption requirements in the country. We must continue to meet these challenges head on and assure that the SBC is used to meet the goals and objectives that help strengthen our stability, reduce our dependence on foreign energy sources, and allow our the citizens and businesses of New York to prosper.

The SBC's goals and objectives are well thought out and effective. These programs need to continue to provide the tactics by which the strategies of the SBC's goals and objectives can be realized.

4. If assuming continuation of the SBC, how should programs be prioritized to meet those goals and objectives?

Honeywell believes that there should continue to be the balance between resource acquisition type programs that encourage energy reductions that have measurable and long lasting effects (i.e. C&I institutional performance contracting), along with programs that foster long-term market transformation effects (i.e. Home Performance with ENERGY STAR).

Large Commercial and Industrial programs offer reduce load immediately which creates grid security as well as has a direct effect on the market clearing price of energy making energy more affordable for all consumers. Likewise, those programs designed to change the market over time (increase manufacturers baseline standards, improve retailers stocking practices, provide appropriately trained personnel to ensure quality installations) are equally as important to provide long lasting energy efficiency impacts absent subsidies.

It is Honeywell's opinion that NYSERDA has managed the process of prioritizing the programs necessary to meet the goals and objectives of the SBC quite well. NYSERDA should continue to place an emphasis on the residential, commercial and institutional marketplaces, especially when it comes to treating low-income and small/ large commercial customers. Ensuring market segment equity (i.e. those that pay in should receive equitable benefit) should be a priority considered if the current SBC is modified.

5. How might the SBC programs be adjusted given the Commission's order, issued September 24, 2004, regarding a Renewable Portfolio Standard (Case No. 03-E-0188)?

Honeywell believes that there are many components that make up a State's portfolio for energy policy. Dubbed Portfolio Management, (i.e. the process by which a planning process that culminates in the PSC's articulating a desired mix of different energy resource types over different time periods, with the aim of achieving the State of New York's overall energy goals for all customers in the most cost-effective manner, including balancing long-run costs and risks), this process provides a means to connect heretofore separate and distinct actions and thereby consider those actions in the context of an overall plan.

The SBC and RPS are just two components of a portfolio aimed at achieving New York's overall energy goals. These two resources should incorporate goals and objectives that compliment but not necessarily replace each other. Consequently, funding for these two initiatives should remain separate, but should leverage common areas.

Examples whereby the SBC can support the RPS include:

- The fostering of outreach and education on the benefits of renewable energy including PV;*
- The assistance in developing a PV dealer network within the State, and*
- Training programs that will ensure that delivery of renewable energy in the State of New York is performed at the highest of industry standards.*

6. In what ways might the current SBC fund collection and allocation process be improved?

Honeywell believes that the fund's collection and allocation processes work well as currently implemented. We continue to suggest that the fund strives to maintain an equity balance between the market sectors (residential, C&I) as paid in and as allocated.

7. What specific program(s) should be eliminated, expanded or created?

Honeywell suggest that Staff look at increasing the low-income programs as they these customers have special needs, are traditionally hard to reach and significantly benefit from programs such as the SBC. Additionally, Honeywell suggests that the SBC increase

funding and thus program activity in the small commercial and institutional performance based arenas.

8. How can future SBC funded programs be more responsive to the needs of New York's energy consumers?

As currently implemented, the SBC funded programs are well suited to a wide variety of New York's energy consumers and establish an excellent base on which to continuously improve upon. That said, Honeywell recommends that there should continue to be a process whereby industry can interface with NYSERDA in order to vet the pro's and future pro's of program design, implementation, and evaluation. Our experiences are such that we can share valuable insight and practical experience in what it means to have multiple party (NYSERDA, NYSERDA representatives, industry and customer) interactions and the complexity that each puts on the process. As industry players, we all share the same common goals of cost effective energy conservation, delighted customers, economic development and an improved energy infrastructure.

In recognizing the limitations of space and time associated with preparing these comments, Honeywell suggests an industry stakeholder meeting take place with NYSERDA (with Staff's presence if desired) to discuss views on improving some processes that we interact with. We would hope to have this opportunity prior to the adoption or continuance of new or existing programming once an SBC fund has been finalized. For example, several topics for consideration as pertaining to the institutional sector include: consolidation of programs to reduce fragmentation and confusion on the part of the end users, process streamlining and paperwork reduction, a plan for ensuring that third party service providers (program implementers, FlexTech providers, etc.) deliver a consistent representation of NYSERDA philosophy and policies, establishment of a customer intake unit to assist end users in identifying which programs best meet their needs, and elimination of competitive funding cycles which for several reasons cause delays in project implementation.

Finally, Honeywell would recommend that NYSERDA increase its emphasis on collaborative relationships with market actors that are developing innovative projects in all building sectors including commercial, industrial, institutional, and government.

9. How can SBC funded programs be marketed more effectively?

Honeywell believes that NYSERDA's marketing of the SBC funded programs works well and is conducted currently at the correct levels. NYSERDA's has targeted and established a brand and identity to New York's SBC funded programs that is recognized region wide. As important as it is to establish an over arching brand/identity, it is equally as important to establish individual or tactical marketing approaches by either customer segment or program type. NYSERDA has succeeded in accomplishing this and this should continue through the next SBC cycle.

10. In what ways can NYSERDA improve its administration of the SBC?

Through self inspection and third party evaluation, we believe that NYSERDA has a very good control plan in place to continuously improve its' administration as associated with the processes of the SBC funded programs. That said, Honeywell would suggest that NYSERDA continue to examine its' programs to ensure that they do not become "compartmentalized". NYSERDA must continue to strive to keep programs as cross functional as possible and to take precaution as to not allow any one (or set of programs) to become too specific for a specific class, causing elimination or confusion to participants.

11. Is the current NYSERDA program evaluation process adequate? How might it be improved?

After reviewing the evaluation and status reports of January 2002 and May 2004, it is evident that NYSERDA goes through great pains to ensure fair and complete evaluation of the programs that it administers. As such, Honeywell can provide no additional comments pertaining to improvement other than to allow the evaluation process to take credit for the other value added non-energy benefits that their programs provide such as job creation, enhanced productivity, increased health, safety, and comfort, reduced water and wastewater treatment. Honeywell suggests that NYSERDA continue to utilize and leverage other state's similar programs to maximize evaluation cost effectiveness.

12. Should SBC funds be extended to programs that encompass research and development into retail and/or wholesale electric market competitiveness issues, or transmission and/or distribution of the State's energy resources?

As previously mentioned within question # 5 regarding the co-existence of both SBC funded programs and a RPS, Honeywell believes the same holds true for the SBC's relationship to retail competition. We do not believe that existing SBC funds should fund this research as such actions will dilute the effectiveness of the current SBC funded programs. We have no objection to this research being conducted as long as the funding for it is represented from funds over and above the current SBC level.

13. Should the scope of the SBC program be expanded to include programs for natural gas customers?

Yes, Honeywell believes that the SBC program be expanded to include programs for natural gas customers. The states of Massachusetts and New Jersey have demonstrated that SBC funds can benefit both electric and gas customers by allowing for a more comprehensive treatment of buildings, thus resulting in a lesser rate of lost opportunities.

a. What kinds of programs would benefit New York's gas consumers?

Electric only SBC funds make it difficult to apply whole building measures to current energy efficiency programs. By adding gas programs to the SBC, this would allow programs to offer and achieve more results as compared to only targeting electric measures. This should help in avoiding lost opportunities whereby paybacks derived from treating the electric measures will help "pull through" those as generated by gas

measures. Programs that encourage efficient use of natural gas, on-site generation, and adoption of new gas based technologies should be considered.

b. Which classes would be best served?

Low income, residential, commercial, institutional, and multifamily.

c. How should gas SBC programs be funded?

Funding for this initiative should be added to the SBC over and above the current rate that exists today, as a separate line item.

d. What duration?

Honeywell recommends that this parallel that of the current SBC timeframe, mainly five years. This should allow for proper planning, implementation and results.

e. How might it be administered?

It makes sense to capitalize and leverage the current activities that NYSEDA's delivers through the existing programs. We would suggest adding these programs to NYSEDA's responsibilities. Adding a second administrator would not take advantage of the benefits of the brand equity in the current provider (NYSEDA) and possibly lead to confusion in the marketplace and amongst customers.

14. Do you have any other suggestions for improving the overall SBC program that are not addressed by the above questions?

In closing, Honeywell believes that NYSEDA is the best-positioned State agency for the administration of this program. While there are opportunities for further improving the structure and administration of programs, we strongly endorse NYSEDA's efforts to date and encourage the Commission to continue these programs with NYSEDA serving in the Administrative role.

Honeywell wishes to thank the PSC's Staff for affording it this opportunity to comment on these matters. We look forward to reading the comments of others and supporting the PSC throughout this proceeding.